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EX-IM BANK FOR BEN TODD

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SUBJECT: POTENTIAL USD 80 MILLION US-ZAMBIA TRANSACTION - EXIM'S
ROLE

EXPORT OPPORTUNITY

11. (SBU) Since September the Zambian government (GRZ) has been in talks with Med-1 Partners, a North Carolina-based small business that constructs and sells fully mobile healthcare facilities, for the purchase of up to seven of its mobile hospital units in a potential USD 79.5 million transaction. The GRZ plans to use the mobile hospitals to improve medical services in Zambia and expand access to medical care for Zambian citizens throughout the country.

12. (SBU) The GRZ is also considering an offer from a Chinese company to provide mobile medical units that includes concessional financing. Med-1 Partners has approached the United States EXIM Bank to explore a potential competitive financing package for the sale of up to seven mobile hospitals.

13. (SBU) Given the competing Chinese offer that includes a concessional financing package, the potential GRZ purchase of Med-1 mobile medical units represents a prime opportunity to utilize the USG's Tied Aid War Chest. A concessional financing package would level the playing field for Med-1 Partners' competitiveness and allow them to compete on the basis of price and quality - apparently preferred by the borrowers - rather than on financial terms against the Chinese proposal.

EXIM REQUIREMENTS

14. (SBU) We understand that EXIM can offer concessional terms under the following conditions:

- The financing package must meet the 35 percent threshold for concessionalism for countries under an IMF program;
- The use of concessional financing may be used only to counter situations where there is a reasonable evidentiary basis that there is a foreign tied aid offer;
- The transaction for which EXIM concessional terms is sought is commercially non-viable; and,
- There is potential for follow on sales because of the demonstration effect in the region.

ZAMBIA'S IMF PROGRAM

15. (SBU) Zambia is currently under an IMF Poverty Reduction Growth Facility (PRGF). The IMF concluded a mission to Zambia in October 2009, and the Staff Report for the 2009 Article IV Consultation has just been submitted to the IMF Executive Board for its consideration. The Staff Report noted that the Zambian economy showed resilience in the global economic downturn, the PRGF program is on track, and Zambia continues to be at low risk for debt distress. Zambia's debt position and progress under its PRGF is such that the IMF included USD 400 million in allowed non-concessional financing for energy projects in 2009, and is expected to increase that limit for 2010. The GRZ has not yet utilized any of its non-concessional debt capacity. Tied aid in

this potential transaction is IMF compliant and conforms with the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries of the Working Party on Export Credits and Credit Guarantees.

FOREIGN TIED AID OFFER AND THE NEED FOR TRANSPARENCY

¶16. (SBU) The GRZ has informed Post that a Chinese entity has proposed to sell mobile medical units to the GRZ. The Chinese Ambassador has also confirmed that there is a Chinese company that has proposed selling mobile hospitals to Zambia. China has a long history of providing concessional financing for investments and projects in Zambia, including the Ndola Stadium construction and the Chambeshi Multi-Facility Economic Zone.

¶17. (SBU) It was the GRZ's announcement to health sector donors that they planned to purchase Chinese-made mobile medical units that prompted Embassy to alert Med-1 Partners to the potential transaction. Embassy has not been able to confirm specific information about the financing terms of the Chinese offer. However, in a series of meetings since September, President Banda and his advisors have repeatedly told the Ambassador that the Chinese offer included a concessionary financing package. Based on those meetings, we believe that the proposal includes concessionary financing terms that could include a soft loan of 20-30 years at two percent interest.

¶18. (SBU) Embassy and other donors to Zambia have continually encouraged the GRZ to have open and transparent government tender procedures to discourage corruption and to ensure that Zambia receives value for money in its transactions. Open, competitive procurement also creates a more level playing field for U.S.

companies interested in trading with or investing in Zambia. In October, the Ambassador submitted a letter to Dr. Kapembwa Simbao, Minister of Health, encouraging the GRZ to proceed with an open tender for the mobile medical unit procurement. Ambassador's letter also urged the Ministry of Health to share with the health sector donors the analysis that led the GRZ to decide to pursue mobile hospitals rather than other health care priorities. We made this request because several health sector donors, particularly those providing direct budget support, have objected to this new approach.

However, it appears that the GRZ believes it is within its sovereign rights to make this decision without donor concurrence. As a result, some donors (OECD Members) may object to U.S. support for a mobile hospital sale.

¶19. (SBU) In a December 2 meeting, President Banda's principal economic advisor told Ambassador that the GRZ would like to have an open and competitive tender process for the purchase of the mobile medical units. He balked, however, at providing specific details about any competing bids' financial terms, calling such a move "uncompetitive." Discussing potential EXIM financing for the transaction, the advisor suggested that Med-1 Partners' financing package would need concessionary terms to be competitive with other bids, but that the GRZ could not divulge the terms of another bid if the tender was to be open and fair.

¶10. (SBU) According to the Procedures for Enhanced EXIM Bank/Treasury Cooperation on Tied Aid Transactions, EXIM will review recipient governments' written or oral confirmations to EXIM or the U.S. Embassy when establishing whether credible information about foreign tied aid offers exists. While we have not received specific financing terms of the foreign tied aid offer, Post believes that the Ambassador's numerous conversations with President Banda and his advisers represents credible oral confirmation of a competing foreign tied aid offer.

HEALTH SECTOR COMMERCIALY NON-VIABLE

¶11. (SBU) The purchase of up to seven mobile medical units and ancillary maintenance and repair costs represents a commercially non-viable transaction for the Zambian government. As a low income country, Zambia's health sector is neither large enough nor mature enough to sustain private investment on commercial terms. As such, health care is provided by the government on a subsidized basis.

POTENTIAL FOR FOLLOW-ON BUSINESS

¶12. (SBU) While the potential transaction with the GRZ is the most promising in the region, Med-1 Partners reports that it is in talks with the government of Malawi and regional governments in South Africa to sell additional units in the region. The GRZ has also intimated that it could be in the market for more units if the initial transaction is deemed successful. To support the potential sale to the GRZ, Med-1 Partners is considering building a regional maintenance and repair facility in Zambia to service its units in the region. As such, Med-1 Partners believes strongly in the potential for follow on sales on commercial terms in the region because of the demonstration effect once the first units are on the ground in Zambia.

BOOTH